



# California Initiative Update

February 2009



# Mission Statement

*The California Initiative will invest in traditionally underserved markets primarily, but not exclusively, located in California. The objective is to discover and invest in opportunities that may have been bypassed or not reviewed by other sources of investment capital.*



## Objectives

- To earn attractive risk-adjusted returns
- As an ancillary benefit, to have a meaningful impact on the economic infrastructure of California Underserved Markets



# California Initiative

## Phase I Performance

Phase I has generated returns commensurate with the asset class to date and has outperformed public market indices.

	<u>Phase I</u>
Results As Of	September 30, 2008
Program Vintage Year	2001
Dollars Invested	\$394.8 million (87%)
Total # of Co. Funded	249
Distributions	\$242.3 million
Realized + Unrealized Value	\$449.8 million
Net Gain (Loss)	\$127.6 million
Multiple on Invested Capital	1.3x
Net IRR	10.5%
Venture Economics All PE returns	3.7%
Wilshire 2500 Ex-Tobacco*	-12.5%

The since inception performance is tracking in the top 35% of Venture Economics  
\* Wilshire 2500 bps Ex-Tobacco time-weighted monthly return calculated from 5/1/01 – 9/30/08

# Phase II – Golden State Investment Fund

**\$500M commitment (managed by Hamilton Lane)  
Offices in San Francisco and San Diego, CA  
Refined investment strategy compared to Phase I**

Enhanced  
investment strategy



- **Fund Approach:** Continue to source private equity funds with proven track records that target California investment opportunities
- **Direct Investment Approach:** Source the best California co-investment opportunities in underserved markets by accessing CalPERS and Hamilton Lane's network of relationships

# Phase II – Golden State Investment Fund

GSIF performance is not meaningful due to the young age of the fund nor is it indicative of future performance

Results As Of	September 30, 2008
Effective Program Vintage	2007
Dollars Invested	\$184.5 million (33%)
Total # of Co. Funded	47
Distributions	\$1.3 million
Realized + Unrealized Value	\$157.9 million
Net Gain (Loss)	-\$26.5 million
Multiple on Invested Capital	0.9x
Net IRR	-15.4%
Venture Economics All PE Median returns	-14.5%

The since inception performance is tracking below the median of Venture Economics



## Assessment of Ancillary Benefits

# California Initiative Companies

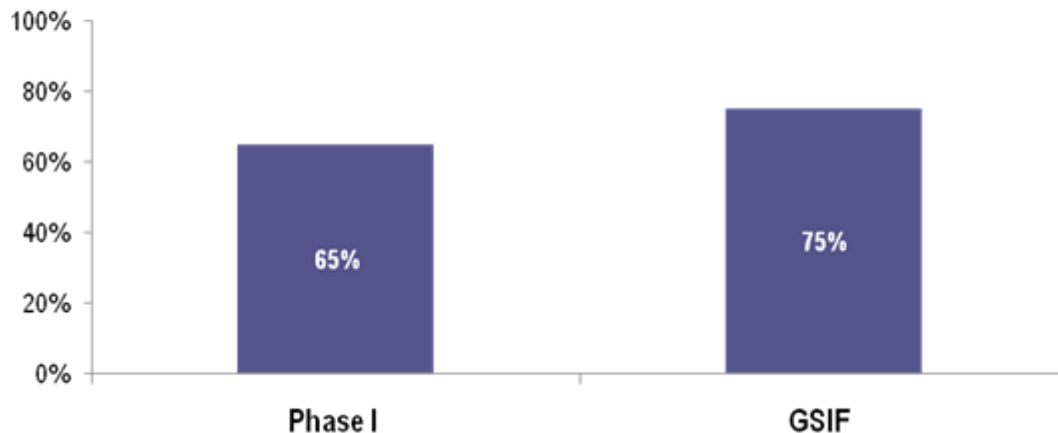
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- **As of June 30, 2008:**
  - **281 companies had received capital through the California Initiative (Phase I and GSIF)**
    - 129 through \$100-million allocation to Bank of America fund-of-funds; BofA provided separate report
  - **This presentation focuses on the 152 companies that have received capital through the nine private equity funds in Phase I and GSIF**
    - 99 active companies provided data (68 Phase I and 31 GSIF)
    - Emphasis on GSIF, given its investment activity in the past year.

# Key Accomplishments—Ancillary Benefits

- **California Investment**
  - **Nearly 70% of all California Initiative companies—active and fully realized—are headquartered in California**

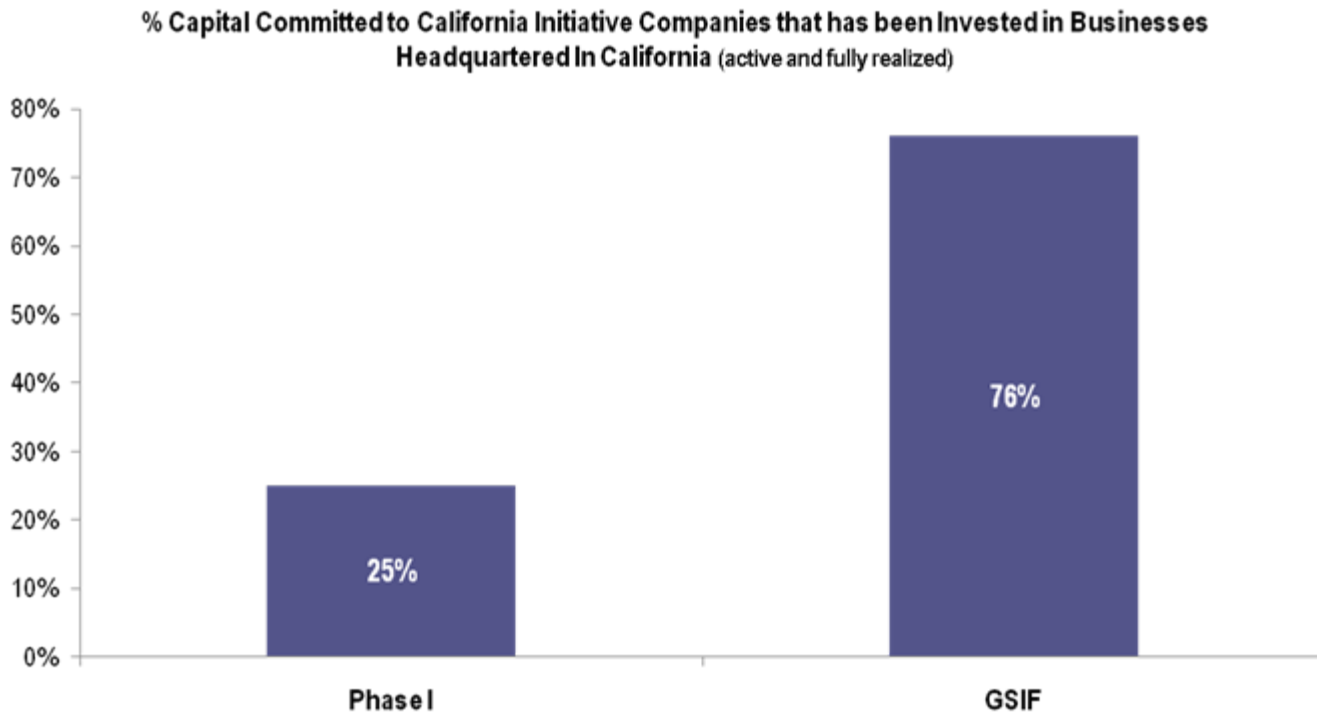
**% California Initiative Companies Headquartered in California**  
(active and fully realized)





## Key Accomplishments—Ancillary Benefits

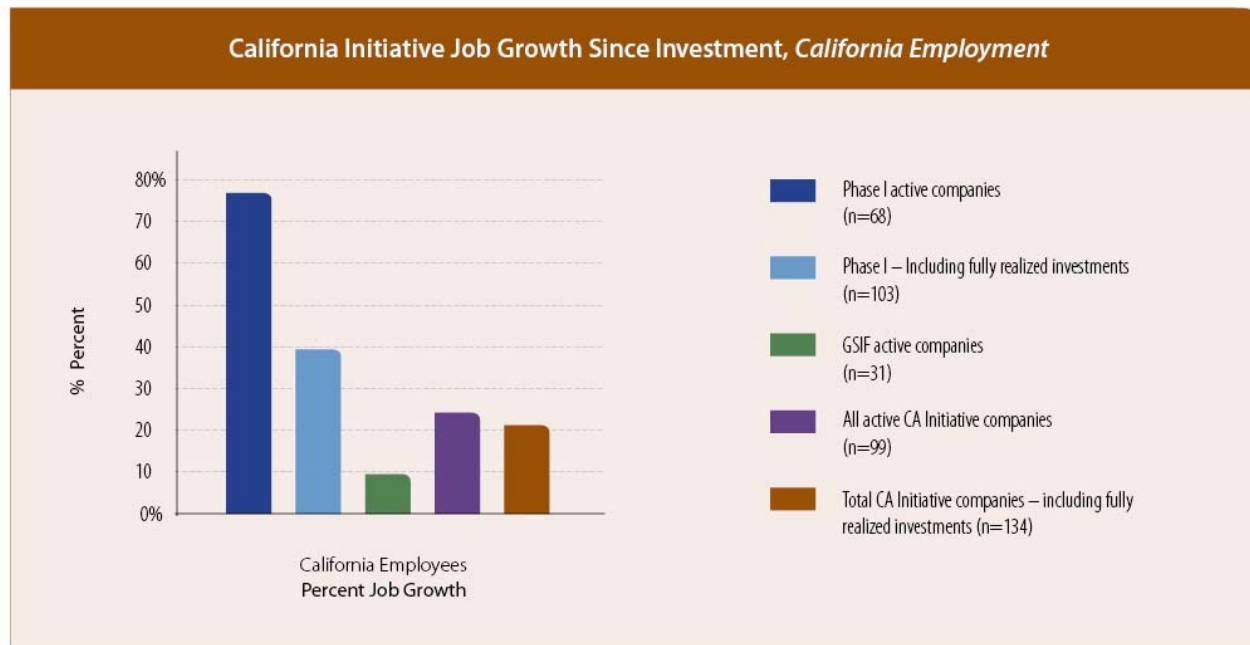
- **California Investment—Percent of capital invested in California-based companies**



# Key Accomplishments—Ancillary Benefits

- **Employment**

- **California Initiative companies support over 50,000 jobs and have created over 4,000 jobs nationally**
- **The rate of in-state job growth at California Initiative companies exceeds the employment growth rate across California.**



Between 2001 and 2008, statewide employment growth in California grew by 3%

# Key Accomplishments—Ancillary Benefits

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- **Innovation/Patents:**
  - **Three new patents have been granted to GSIF companies since investment**
    - Patent growth rates in the US and California have been negative
    - Patents are an indicator of innovation and often a precursor to significant hiring
- **Job Quality**
  - **Of 31 GSIF companies, 9 (29%) have added employee benefits since investment; 87% of GSIF company employees are eligible for health insurance**

# Underserved Market Indicators

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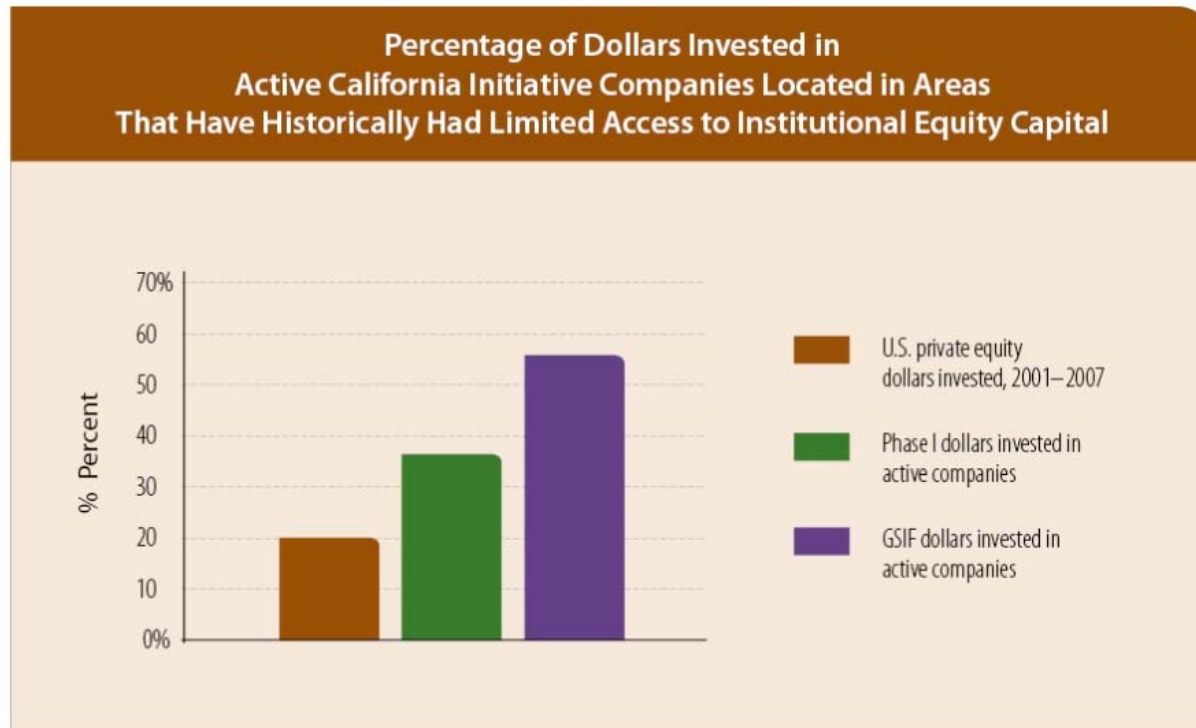
- **Providing capital to areas of California and the United States that have historically had limited access to institutional equity capital**
- **Investing in businesses that employ workers living in economically disadvantaged areas**
- **Supporting women and minority entrepreneurs and managers**

## Context:

- **774 US Zip Codes received more than 80% of all private equity dollars committed between 2001 and 2007**
- **For the purposes of this analysis, any company located OUTSIDE of these 774 Zip Codes—including approximately 150 California Zip Codes where more than 90% of all private equity in California was committed—is considered to be located in an area that has historically had limited access to institutional equity capital.**

# Limited Access to Capital

- 20% of all private equity invested in companies in the US between 2001 and 2007 went to companies located in areas that have historically had limited access to institutional equity capital.
- 37% of dollars invested in Phase I active companies and 56% of dollars invested in GSIF active companies, are invested in companies located in these areas.

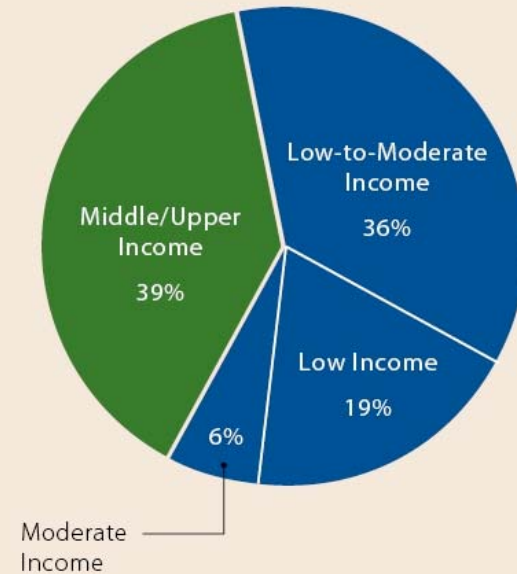


# Employing Workers in Economically Disadvantaged Areas

- **51% of Phase I company employees live in a Zip Code that is predominantly comprised\* of low and moderate income (LMI) census tracts.**
- **Based on an analysis of both wage and residence, 61% of GSIF company employees are LMI.**
- **As a frame of reference, 35% of employed individuals in the US and 38% of employed Californians live in LMI census tracts.**

\* Zip code areas that are predominantly LMI means that more than 50% of the geographic area comprising the zip code is within census tracts that are designated low-to-moderate income.

Economic Status of GSIF Portfolio Employees



- When private equity is invested in a company, ownership often shifts from individuals to a fund. Prior to investment, company owners are typically C-Level officers—CEO, COO, CFO.
- To better understand the proportion of women and minority entrepreneurs at portfolio companies, officers and key managers are used as a proxy.

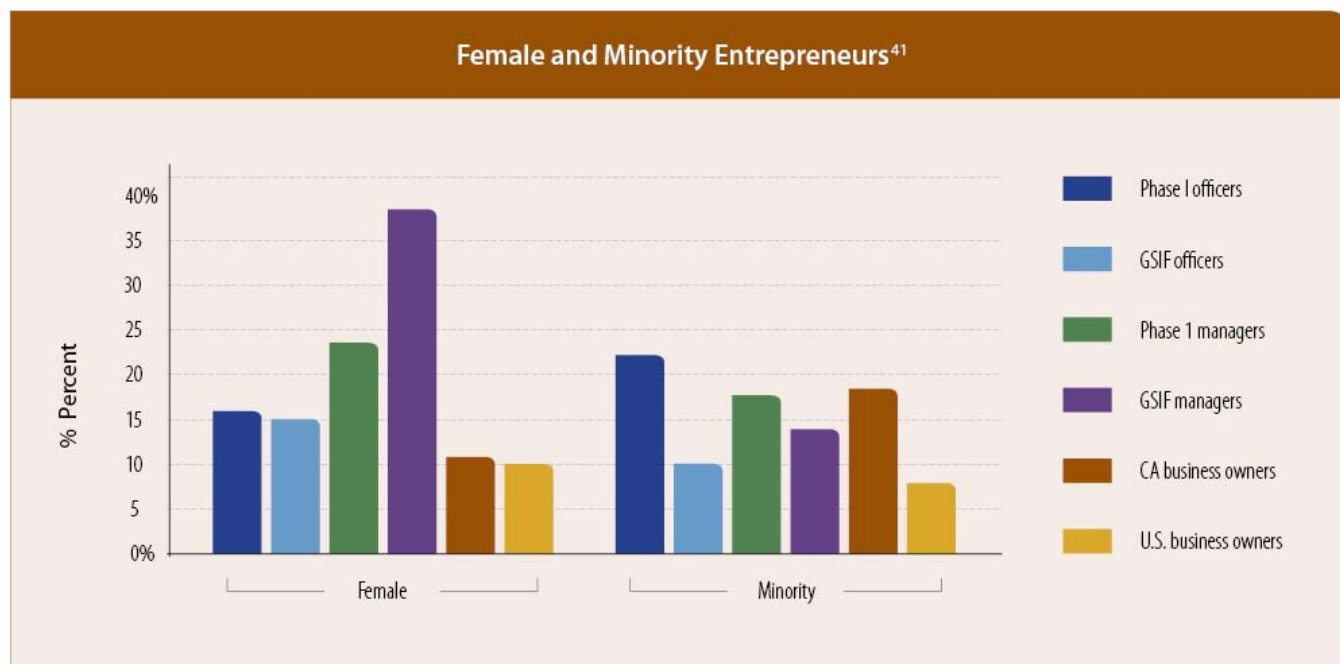


- **To put CA Initiative companies' ownership and management diversity in perspective:**
  - **Compare to the proportion of businesses with paid employees and over \$1 million in annual revenue that are owned by women and minorities. Of data available, these companies most closely fit the characteristics of companies receiving institutional equity capital.**

# Backing Ethnic Minority and Women Entrepreneurs and Managers

- **California Initiative companies exceed national averages, and exceed or meet most state averages in businesses owned and/or managed by:**
  - **Women**
  - **African Americans**
  - **Hispanics**
  - **Asian/Pacific Islanders**

(Additional details broken out by minority can be found on page 21 of the accompanying report.)



# Ancillary Benefits Assessment

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- **Continual data collection and analysis of ancillary benefits measurements**
- **Annual update to the Investment Committee**
- **Welcome Board questions and guidance**

# Summary

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- **GSIF is impacting underserved markets through its investments in California companies**
  - **The structure reflects “lessons learned” in Phase I**
- **Phase I is in the “harvest” phase during a difficult economic period**
- **Attractive underserved investment opportunities exist in California**



## Appendix

# Banc of America Capital Access Funds

- **15 funds have invested in 129 companies; 90 active companies as of December 31, 2007**
  - 29 are located in low-to-moderate income areas
  - 25 are owned or managed by minorities; 45 have at least some minority ownership
  - 38 have some women ownership
  - 35 are located in census tracts where more than half the population is ethnic minority
  - 7 CEOs are African American
  - 7 CEOs are Hispanic
  - 6 CEOs are Asian
  - 3 CEOs are Women
  - Approximately 20,000 total employees; 31% minority, 46% women

# Banc of America Capital Access Funds

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- **Invested in 15 private equity partnerships**
  - **11 focus on low-to-moderate income areas or individuals**
  - **2 are improving access to capital, capitalizing financial institutions that serve low income/minority communities**
  - **9 focus on ethnic minority opportunities (companies either managed by minorities or serving minority consumers)**
  - **6 have at least one female partner**
  - **11 have at least one ethnic minority partner; 10 have at least two minority partners**
  - **9 have offices in California**

